IRA Rollover Dilemma

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Congratulations on your retirement! You worked diligently to build and grow your savings nest egg. Now you need to protect and keep what you earned. IRA rollovers permit you to transfer funds from an old employer-sponsored retirement plan into your own personal IRA. This is the biggest check of your life.

Qualified retirement savings are typically tax deferred. Unless they are Roth's; our 401k, 403b and 457 plans will all be taxed at some point. Moreover, we are faced with four options on how we can handle our IRA rollover decisions.

Rollover, Stay Put, Withdraw & Convert

IRA Rollover. Transfer your account into an IRA. This is the best option for most people. IRAs are simpler to work with than leaving your money in your company plan. Required minimum distributions (RMD) can be aggregated in an IRA while each 401k RMD must be taken separately. Mandatory withholding for taxes is not required for IRAs. Estate planning strategies are easier when considering the 10-year rule. Roth conversions are also more straight forward to implement. Qualified Charitable Distributions are only allowed from IRAs. Most importantly, with an IRA rollover you have more control of your investment choices and risk measures.

Stay Put. Leave you savings in your company plan. Why would you do that? Some company plans allow you to buy life insurance with 401k money. Maybe this is the only way you can qualify for insurance because you are not insurable for a new policy. If you are still working at the company, you can delay your RMDs and borrow from your savings. ERISA offers credit protection if creditors want to seize your assets. Finally, special rules apply to avoid the 10% penalty for pre-59 ½ distributions.

Lump Sum distribution. If you take a lump sum distribution from your company plan, you will be required to withhold 20% for federal taxes. And, at the same time, your money will not grow tax deferred.

Convert Roth IRA. Open a Roth IRA and transfer 401k into it. You will have to pay taxes on that conversion. However, your Roth IRA will continue to grow tax free. As Ed Slott says: “Forever taxed to never taxed.”

Protect you hard earned money. The rules and procedures for IRA rollovers can be challenging. Call me and I will guide you through the process.

Brendan Houlihan, a fiduciary, is Financial Advisor at BFH Wealth Management and creator of the Learn to Earn Investment program for children. Member of the Ed Slott Elite Advisor Group.

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